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SUBJECT: Gas Trading Exchange Formally Launched -- Without Gazprom
(For Now)

REF: A) 08 Vienna 1733; B) 08 Vienna 242; C) 07 Vienna 2980

Sensitive but unclassified -- protect accordingly.

¶1. (SBU) On December 11, Austrian national oil/gas company OMV and the Vienna Stock Exchange (VSE) formally launched a new gas trading platform as part of the Central European Gas Hub (CEGH), a gas-service provider and currently a 100% subsidiary of OMV. OMV and VSE (which is slated to take a 20% stake) hope the fully licensed exchange will strengthen CEGH and the Baumgarten physical hub as the preeminent international gateway and trading point for gas in central Europe. In contrast to earlier announcements, the exchange was launched without formal Gazprom participation -- due to regulatory concerns and (according to OMV) reticence on the part of some Gazprom leaders.

No Gazprom Participation (For Now)

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¶2. (SBU) CEGH has operated for several years as a technical services provider, helping traders arrange "over the counter" gas swaps and purchases for delivery at Baumgarten and points downstream. As part of Austria's long-term gas supply contract extension with Russia/Gazprom in 2007, Gazprom was given the right to take a 50% stake in the CEGH trading/services platform joint venture (reftels).

A November 2008 agreement expanded and modified the deal: Gazprom Germania GmbH would take 30% and Centrex Europe Energy & Gas AG (a Russian trading company) a 20% stake in CEGH, with VSE taking 20% and OMV's stake to be reduced to 30% (COMMENT: maintaining a de facto 50% Austrian/50% Russian split). Oddly, CEGH remained a 100% subsidiary of OMV and the exchange's formal launch was repeatedly delayed. OMV contacts insisted, though, that implementing the ownership agreement was a mere formality.

¶3. (SBU) However, the exchange's launch as an OMV/VSE vehicle has revealed underlying tensions over whether Gazprom/Russian participation would compromise the "ring-fencing" (shipper confidentiality and no discrimination rules) mandated by unbundling rules (COMMENT: not to mention the tight rules governing financial exchanges). A study by PriceWaterhouseCoopers (PWC) apparently argues that Gazprom participation would mar the exchange's reputation, leading some traders to avoid it (NOTE: Post does NOT/NOT have access to the PWC report). Austrian regulator E-Control has publicly made similar comments on the need for independence. In media reports, OMV and VSE have said they will seek European Commission approval for Gazprom participation, approval they estimated would take about six months. OMV and VSE have tried to dispel related concerns, saying that trading on the exchange would be subject to "strict rules and requirements" in accordance with Austria's Stock Exchange Act, which guarantees neutrality, confidentiality, and minimized risks. The GoA stands behind the original deal: Economy Minister Reinhold Mitterlehner said at the December 11 ribbon cutting that the Austrian government welcomes Gazprom participation "up to the 50 percent" foreseen in existing MOUs.

¶4. (SBU) In a meeting with Embassy and Department representatives on December 11, OMV Gas representatives told us that Gazprom's no-show also reflects that company's internal debates over its downstream

strategy. While the newer vanguard (such as Gazprom's trading unit in London) recognize the opportunities in new exchanges -- which make downstream markets more dense and smooth price/demand developments -- some in Moscow still lean on the tried-and-true instruments (big long-term deals, negotiated at the highest levels) and are suspicious of market/regulatory innovations.

The Path Ahead

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15. (U) Operating in a pilot phase since 2008, the exchange already handles spot market, over-the-counter volumes of about 2 bcm/month. This month marks the first centrally-cleared, standardized spot-market contracts. Futures-contract trading will debut late in the first quarter of 2010. CEGH will be responsible for marketing and customer relations, while overall exchange management will rest with VSE.

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